

BFX5014 - Advanced Behavioural Finance

MCom, Year 2, Behavioural Finance – Semester 2, 2021 – July 5, 2021

Lectures will take place on Fridays from 1-4 pm Melbourne time.

UNIT SCHEDULE**UNIT SCHEDULE**

Lecture	Date	Topic	Lecturer
1	30 July	<p>Introduction, conventional economics, preferences, prospect theory, integration vs. segregation, and framing</p> <p>Required literature:</p> <ul style="list-style-type: none"> Deaves, Introduction and Lecture 1 <p>Paper to be discussed:</p> <ul style="list-style-type: none"> Thaler, R.H.: "Behavioral economics: past, present, and future", <i>American Economic Review</i> 106(7), 2016, 1577-1600. <p>Introduced by: Weishuo Xu</p>	Chris Veld
2	6 August	<p>Loss aversion</p> <p>Required literature:</p> <ul style="list-style-type: none"> Pope, D.G. and Schweitzer, M.E.: "Is Tiger Woods loss averse? Persistent bias in the face of experience, competition, and high stakes", <i>American Economic Review</i> 101, 2011, 129-157. <p>The endowment effect</p> <p>Required literature:</p> <ul style="list-style-type: none"> Kahneman, D., Knetsch, J.L., and Thaler, R.H.: „Experimental tests of the endowment effect and the Coase theorem", <i>Journal of Political Economy</i> 98, 1990, 1325-1348. <p>Heuristics and biases</p> <p>Required literature:</p> <ul style="list-style-type: none"> Deaves, Lecture 2, Parts 1-3 <p>Implications of heuristics and biases for financial decision-making</p> <p>Required literature</p> <ul style="list-style-type: none"> Deaves, Lecture 3, Parts 4-7 <p>Recommended literature</p> <ul style="list-style-type: none"> Shefrin, H. and Statman, M.: "Making sense of beta, size, and book-to-market", <i>Journal of Portfolio Management</i> 21(2), 1995, 26-34. <p>Paper to be discussed:</p> <ul style="list-style-type: none"> Cesarini, D., Johannesson, M., Lichtenstein, P., Sandewall, O., and Wallace, B.: "Genetic variation in 	Chris Veld

		<p>financial decision-making”, <i>The Journal of Finance</i> 65, 2010, 1725-1754.</p> <p>Introduced by: Taoran Guo</p>	
3	13 August	<p>Individual investors and the force of emotion</p> <ul style="list-style-type: none"> • Kaplanski, G. and Levy, H.: “Exploitable predictable irrationality: the FIFA World Cup Effect on the U.S. stock market”, <i>Journal of Financial and Quantitative Analysis</i> 45, 2010, 535-553. • Kaplanski, G., Levy, H., Veld, C., and Veld-Merkoulova, Y.V.: “Do happy people make optimistic investors?”, <i>Journal of Financial and Quantitative Analysis</i>, 2015, 145-168. <p>Paper to be discussed:</p> <ul style="list-style-type: none"> • Hirshleifer, D., Jiang, D., and DiGiovanni, Y.M.: “Mood beta and seasonalities in stock returns”, <i>Journal of Financial Economics</i> 137, 2020, 272-295. <p>Introduced by: Ruqin Chen</p>	Chris Veld
4	20 August	<p>The stock market participation puzzle</p> <ul style="list-style-type: none"> • Guiso, L., Sapienza, P., and Zingales, L.: “Trusting the stock market”, <i>The Journal of Finance</i>, 2008, 2557-2600. • Van Rooij, M., Lusardi, A., and Alessie, R.: “Financial literacy and stock market participation”, <i>Journal of Financial Economics</i>, 2011, 449-472. <p>Paper to be discussed:</p> <ul style="list-style-type: none"> • Van Rooij, M., Lusardi, A., and Alessie, R.: “Financial literacy, retirement planning and household wealth”, <i>The Economic Journal</i> 122, 2012, 449-478. <p>Introduced by Thi Anh Thu Le</p> <ul style="list-style-type: none"> • Individual referee report 1 due 	Chris Veld
5	27 August	<p>The stock market participation puzzle: continued</p> <ul style="list-style-type: none"> • Grinblatt, M., Keloharju, M., and Linnainmaa, J.: “IQ and stock market participation”, <i>The Journal of Finance</i>, 2011, 2121-2164. • Merkoulova, Y. and Veld, C.: “Stock return ignorance”, <i>Journal of Financial Economics</i> (forthcoming), 2021. <p>Rational managers and irrational investors</p> <p>Required literature:</p> <ul style="list-style-type: none"> • Cooper, M.J., Dimitrov, O., and Rau, R.P.: “A rose.com by any other name”, <i>The Journal of Finance</i> 56, 2001, 2371-2388. • De Jong, A. and Naumovska, I.: “A note on event studies in finance and management research”, <i>Review of Finance</i> 20, 2016, 1659-1672. <p>Paper to be discussed:</p>	Chris Veld

		<ul style="list-style-type: none"> Hong, H., Kubik, J.D., and Stein, J.C.: "Social interaction and stock market participation", <i>The Journal of Finance</i> 59, 2004, 137-163. <p>Introduced by: Yifei Miao</p>	
6	3 Sep.	<p>Working paper discussions: Session 1</p> <p>Working paper presentation 1. Paper:</p> <ul style="list-style-type: none"> Arrondel, L., Calvo-Pardo, H., Giannitsarou, C., and Halioussos, M.: "Informative social interactions", Working Paper, Paris School of Economics, Paris, 2020. To be presented by Yifei Miao, Taoran Guo, and Ruqin Chen. To be discussed by Thi Anh Thu Le and Weishuo Xu. <p>Working paper presentation 2. Paper:</p> <ul style="list-style-type: none"> Barber, B.M., Huang, X., Odean, T., and Schwarz, C.: "Attention induced trading and returns: Evidence from Robinhood users", Working Paper, University of California, Davis. To be presented by Thi Anh Thu Le and Weishuo Xu. To be discussed by Yifei Miao, Taoran Guo, and Ruqin Chen. 	Chris Veld
7	10 Sep.	<p>Equity premium puzzle and myopic loss aversion</p> <p>Required literature:</p> <ul style="list-style-type: none"> Benartzi, S. and Thaler, R.H.: "Myopic loss aversion and the equity premium puzzle", <i>Quarterly Journal of Economics</i> 110, 1995, 73-92. Gneezy, U., A. Kapteyn, and J. Potters, 2003, Evaluation Periods and Asset Prices in a Market Experiment, <i>Journal of Finance</i>, 58(2), 821-837. <p>Recommended literature:</p> <ul style="list-style-type: none"> Mehra, R. and Prescott, E.C.: "The equity premium: A puzzle", <i>Journal of Monetary Economics</i> 15, 1985, 145-161. <p>Paper to be discussed:</p> <ul style="list-style-type: none"> Cosemans, M. and Frehen, R., 2021. Saliency theory and stock prices: empirical evidence. <i>Journal of Financial Economics</i> 140(2), pp.460-483. <p>Introduced by: Weishuo Xu</p>	Joshua Shemesh
8	17 Sep.	<p>Equity premium puzzle and stock market participation puzzle</p> <p>Required literature:</p> <ul style="list-style-type: none"> Merkoulova, Y. and Veld, C., 2021, Does it pay to invest? Stock market participation and the personal 	Joshua Shemesh

		<p>equity risk premium, <i>Journal of Banking and Finance</i> (forthcoming), 2021.</p> <p>Anomalies and inefficiencies</p> <p>Required literature:</p> <ul style="list-style-type: none"> • Deaves, Lecture 4, parts 1-7. • Lamont, O.A. and R.H. Thaler: "Can the Market Add and Subtract? Mispricing in Tech Stock Carve-outs", <i>Journal of Political Economy</i>, 111 (2), 2003, 227-268. <p>Paper to be discussed:</p> <ul style="list-style-type: none"> • Ang, J., and Mauck, N., 2011, Fire sale: Myth or reality?, <i>Journal of Banking and Finance</i> 35, 532-43. <p>Introduced by: Taoran Guo</p>	
9	24 Sep.	<p>Do behavioural factors explain stock market puzzles?</p> <p>Recommended literature:</p> <ul style="list-style-type: none"> • Ackert, L.F., Charupat, N., Church, B.K. and Deaves, R.: "Margin, short selling and lotteries in experimental asset markets", <i>Southern Economic Journal</i> 73, 2006, 419-436. <p>Overconfidence</p> <p>Required literature:</p> <ul style="list-style-type: none"> • Deaves, Lecture 2, part 4. <p>Paper to be discussed:</p> <ul style="list-style-type: none"> • Barber, B. and Odean, T., 2000, Trading is hazardous to your wealth, <i>The Journal of Finance</i> 55, 773-806. <p>Introduced by: Ruqin Chen</p>	Joshua Shemesh
	1 Oct.	Mid-semester break: 27 September – 1 October	
10	8 Oct.	<p>Overconfidence (cont.)</p> <p>Required literature:</p> <ul style="list-style-type: none"> • Deaves, Lecture 3, part 3. • B. Barber and T. Odean: "Boys will be Boys: Gender, Overconfidence, and Common Stock Investment", <i>Quarterly Journal of Economics</i>, February 2001, Vol. 116, No. 1, 261-292. <p>Paper to be discussed:</p> <ul style="list-style-type: none"> • Ben-David, I., Graham, J. and Harvey, C., 2013, Managerial Miscalibration, <i>Quarterly Journal of Economics</i> 128, 1547–1584. <p>Introduced by: Thi Anh Thu Le</p> <ul style="list-style-type: none"> • Individual referee report 2 due 	Joshua Shemesh
11	15 Oct.	<p>Behavioural corporate finance</p> <p>Required literature:</p>	Joshua Shemesh

		<ul style="list-style-type: none"> • Malmendier, U. and Tate, G.: “Who makes acquisitions? CEO overconfidence and the market’s reaction”, <i>Journal of Financial Economics</i>, 89, 2008, 20–43. • Cain, M.D. and McKeon, S.B.: “CEO personal risk-taking and corporate policies”, <i>Journal of Financial and Quantitative Analysis</i>, 2016, 139-164. <p>Recommended literature:</p> <ul style="list-style-type: none"> • Baker, M. and Wurgler, J.: “Behavioral Corporate Finance: An updated survey”, NBER working paper 17333, August 2011. Available at: http://www.nber.org/papers/w17333 • Cronqvist, H., Makhija, A.K., and Yonker, S.E.: “Behavioral consistency in corporate finance: CEO personal and corporate leverage”, <i>Journal of Financial Economics</i> 103, 2012, 20-40. • Graham, J.R. and Harvey, C.R.: “The theory and practice of corporate finance: evidence from the field”, <i>Journal of Financial Economics</i> 60, 2001, 187-243. • Kida, T.E., Moreno, K.K. and Smith, J.F.: “The Influence of Affect on Managers’ Capital-Budgeting Decisions”, <i>Contemporary Accounting Research</i> 18, 2001, 477–94. • Malmendier, U. and Tate, G.: “CEO Overconfidence and Corporate Investment”, <i>The Journal of Finance</i> 60, 2005, 2661-2700. <p>Paper to be discussed:</p> <ul style="list-style-type: none"> • Cronqvist, H. and Yu, F., 2017. Shaped by their daughters: Executives, female socialization, and corporate social responsibility. <i>Journal of Financial Economics</i> 126(3), pp.543-562. <p>Introduced by: Yifei Miao</p>	
12	22 Oct.	<p>Working paper discussions: Session 1</p> <p>Working paper presentation 1. Paper:</p> <ul style="list-style-type: none"> • Cookson, J.A., Engelberg, J. and Mullins, W., 2021. Echo Chambers. • To be presented by Yifei Miao, Thi Anh Thu Le, and Weishuo Xu. • To be discussed by Taoran Guo and Ruqin Chen. <p>Working paper presentation 2. Paper:</p> <ul style="list-style-type: none"> • Guenzel, M., 2020. In too deep: The effect of sunk costs on corporate investment. University of Pennsylvania Working Paper • To be presented by Taoran Guo and Ruqin Chen. • To be discussed by Yifei Miao, Thi Anh Thu Le, and Weishuo Xu. 	Joshua Shemesh

25-29 October	SWOT VAC
1-19 November	OFFICIAL EXAMINATION PERIOD
6 December	EXAMINATION RESULTS RELEASED

ASSESSMENT REQUIREMENTS

Assessment Task 1: Presentations

Weighting: 15%

Date: at the end of each Lectures 1-5 and 7-11

Task details:

For specific lectures (see schedule above) one paper will be scheduled for discussion in the 3rd hour of the lecture. One student will be asked in advance to prepare a short presentation of the paper (15-20 minutes) and that presentation will be followed by a group discussion of the paper (what do we learn from the paper? What are the major strengths and weaknesses of the paper?, etc.). This presentation itself will be part of the evaluation. In addition, the evaluation will be based on the discussion part. Students will be assessed on the extent to which they demonstrate that they have completed the assigned reading prior to attending class together with the ability to demonstrate that they have thought through the topic and the issues associated with it.

Learning outcomes assessed: 1 and 2.

Assessment Task 2: Working paper presentation and discussion

Weighting: 15%

Due date: Weeks 6 and 12

Task details:

Lectures 6 and 12 will each consist of two working papers. For both papers, students will be divided in two groups: one group presents and discusses the paper (the defenders) and the other groups critiques the paper (the attackers). After the first paper, the groups change roles for the second paper.

The defenders are required to give a 30-minute presentation of a working paper (to be assigned). This presentation is a group project, since 2-3 students will prepare the presentation and present the paper together.

The attackers prepare together a 20-minute discussion of the paper. Also, this discussion will be a group project, because the students will prepare the discussion and present it together.

The defenders will then be given 15 minutes to reply to the discussion.

After both defenders and attackers have made their pitch, there will be group discussion (10 minutes).

Students will be evaluated as a group for each round (four rounds).

Learning outcomes assessed: 2 and 3.

Assessment Task 3: Referee reports

Weighting: 20%

Due date: End of Weeks 4 and 10

All students will be required to hand in two referee reports for two different papers. The papers will be distributed at the beginning of Weeks 3 and 9 and they will be due by the end of Weeks 4 and 10 (the Sunday after Weeks 4 and 10 at 23.59 pm).

The referee report for Week 3 will be on the paper: Calvet, L., Celerier, C., Sodini, P., 2020, Can security design foster household risk taking?, Working Paper, Harvard Business School.

The referee report for Week 9 will be on the paper: Ma, Q., Whidbee, D.A. and Zhang, W., 2019. Acquirer reference prices and acquisition performance. *Journal of Financial Economics* 132(1), pp.175-199.

Note that these referee reports are individual projects (so not group projects). Students are not supposed to discuss their reports with other students before handing them in.

Learning outcomes assessed: 2 and 3.